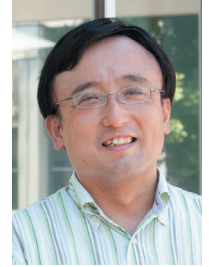


Can a 2% Inflation Rate Be Maintained?



Author Nobuo Iizuka

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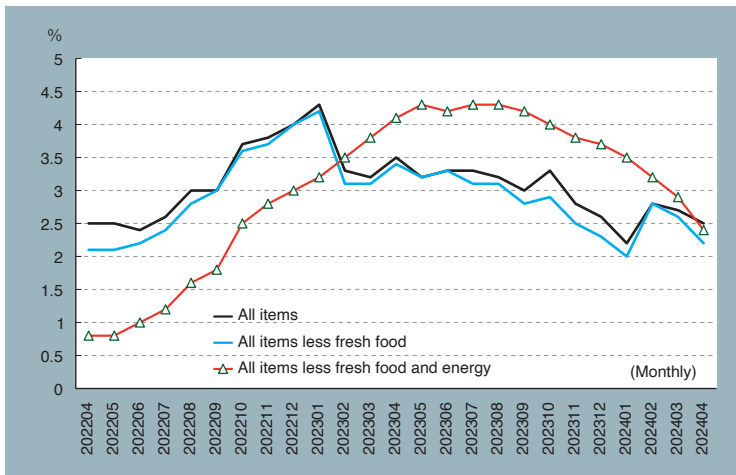
Energy as a Negative Contribution to Inflation

With the monetary policy of the Bank of Japan (BOJ) being changed in March this year, whether the 2% rate of rise in consumer prices (all items less fresh food), which was considered the policy goal, can be maintained is attracting attention. As was explained in the May/June 2022 issue of this series, the year-on-year rate of rise in consumer prices for all items and consumer prices for all items less fresh food exceeded 2% from April 2022 when the impact of the discount plans of mobile phone companies began to get smaller (*Chart 1*).

In contrast, the year-on-year rate of rise in all items less fresh food and energy, which excludes the impact of prices of energy, for much of which Japan depends on imports, was below 1% in the spring of 2022. In the May/June 2022 issue of this series, I pointed out that it may follow the same trend as in 2008, when the rise in energy prices was unable to be fully passed on to other domestic goods and services.

However, I now think that was a baseless fear. The year-on-year rate of the rise in energy prices has turned negative since February 2023 due to burden reduction measures by the Japanese

CHART 1
Trend of rise in Consumer Price Index



Source: Consumer Price Index, Statistical Bureau, Ministry of Internal Affairs and Communication

government. As a result, the year-on-year rate of rise in all items less fresh food and energy continues to exceed all items less fresh food. Since movements to pass on the rise in costs of raw materials to sales prices continued, the rate of rise in all items less fresh food and energy rose to the 4% level in April 2023.

Looking at the year average for 2023, the rate of rise in all items less fresh food and energy (4.0%) was the highest since 1981 (4.7%). This was the highest level in 42 years, and the trends in consumer prices for 2023 can be said to be rare during recent years. As more companies passed on costs to prices, this has also become the driving force for raising wages.

Rate of Rise in General Services Prices

Chart 2 shows an analysis of the year-on-year rate of rise in all items less fresh food and energy. The first factor behind the growth in the rate of rise is food, less fresh food and meals outside the home. In April 2023, when the year-on-year rise for all items less fresh food and energy hit the 4% level, the contribution of food, less fresh food and meals outside the home, occupied approximately half. It can be said that passing on the rise in prices of raw materials to food prices has become more active. However, food prices were also rising in 2008, and despite the difference this time of the rate of rise being higher, the same type of movement as in 2008 can also be observed.

On the other hand, what has risen after a long period of time is general services. The rate of rise in 2023 was 2.3%, the highest since 1993 (2.7%). A rise in the price of goods occurred once in a while after the burst of the bubble with the surge in raw material prices and energy prices, but the growth in services prices continued to be zero or negative from around 1999. As deflationary pressure became stronger, movements to keep services prices low by restraining wages or increasing part-time employment continued. But at last, costs such as personnel costs were able to be passed on to prices.

Meals Outside the Home & Accommodation Fees

As shown in *Chart 3*, the rate of rise in general services

prices rose to 3% in November 2023. The driving force is accommodation fees. In addition to the factor of accommodation charges rising with heightened inbound demand from foreign visitors, there was also the special factor of the discounts provided by the tourism promotion measures of the Japanese government the year before. If the discounts available the year before are gone this year, the rate of rise will seem higher. The contribution of accommodation fees shrinking after January 2024 is because this special factor itself has been gradually shrinking.

Further, what makes observation of general services prices complex is foreign package travel expenses. As overseas trips practically vanished with the impact of the coronavirus pandemic, collecting price information on foreign package travel became difficult, and foreign package travel expenses were set flat at 0% compared to the previous year after January 2021. But from the January 2024 national CPI, prices are once again being reflected. *Chart 3* also shows the sudden appearance of a positive contribution of foreign package travel expenses from January 2024. On the other hand, since the rate of rise was presumed at zero for three years, there is a possibility that the rate of rise for January 2024 was excessive compared to the actual state.

Further, the positive contribution of meals outside the home, which was the prime factor behind the rise in general services prices until mid-2023, is gradually shrinking. There is a possibility of the rate of rise in general services prices slowing down from now on.

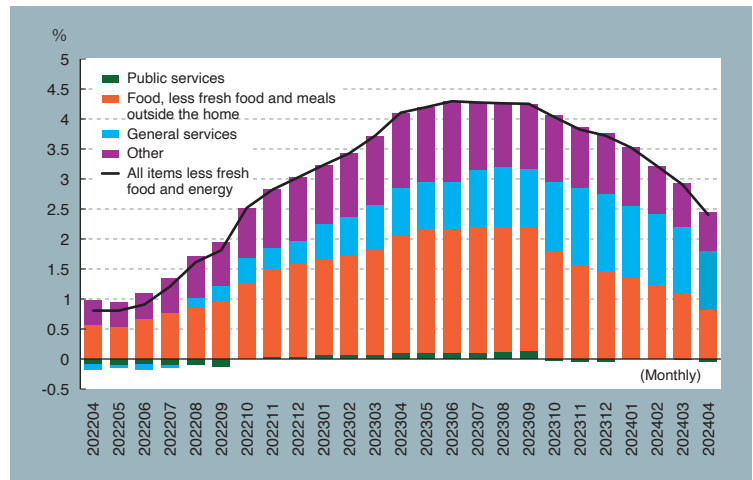
Will Energy Again Be an Upward Pressure on Consumer Prices?

The latest value upon writing this article, the April 2024 value of all items less fresh food and energy, was 2.4%, 2.5% for all items, and 2.3% for all items less fresh food. The rate of rise for all items exceeded the rate of rise for all items less fresh food and energy for the first time since January 2023. The year-on-year rate of rise in energy price was 0.1%, positive for the first time also since January 2023. As the government's burden reduction measures for electricity and gas bills are expected to end in due course, it is highly likely that the future rate of rise for all items less fresh food will exceed the future rate of rise for all items less fresh food and energy.

When energy prices eventually turn upward, it would be good if that cost can be passed on smoothly to the prices of goods and services, but as current private consumption is considered weak, will movements to pass on to prices continue? Even if energy prices goes up, as in 2008, will a situation occur where raising prices of other goods and services becomes difficult, and then price cuts are forcibly imposed? The BOJ is likely to have to continue steering a difficult monetary policy.

CHART 2

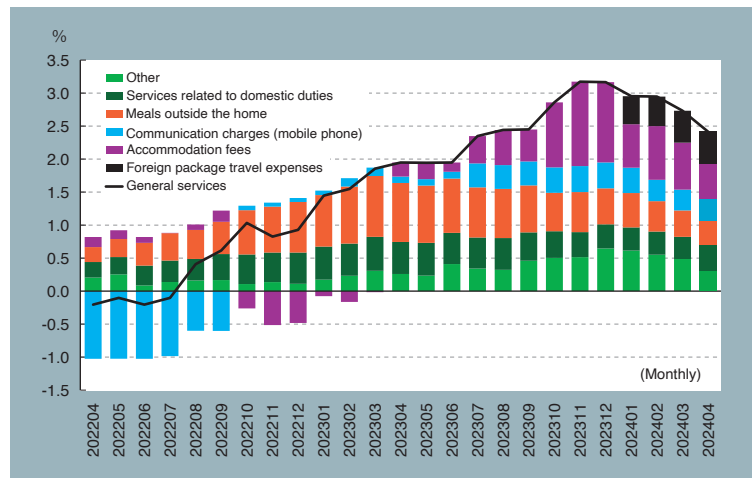
Contribution analysis of rise in Consumer Price Index (All items less fresh food and energy)



Source: Consumer Price Index, Statistical Bureau, Ministry of Internal Affairs and Communication

CHART 3

Contribution analysis of rise in Consumer Price Index (General services)



Source: Consumer Price Index, Statistical Bureau, Ministry of Internal Affairs and Communication

Note: This article has been written based on information obtained as of May 24, 2024.

Article translated from the original Japanese by Mio Uchida. JS

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Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2016	542.1	0.8	544.4	1.2	-0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.8	0.6	556.6	0.6	0.6	0.9
2019	552.5	-0.4	557.9	0.2	-2.6	0.6
2020	529.6	-4.1	539.8	-3.2	-10.4	-0.2
2021	543.2	2.6	552.6	2.4	5.4	-0.2
2022	548.6	1.0	560.0	1.3	-0.1	2.3
2023	558.7	1.9	591.8	5.7	-1.3	3.1
2023/2nd Qtr.	562.7	1.0	595.1	2.5	1.3	3.2
3rd Qtr.	557.4	-0.9	593.8	-0.2	-1.4	3.0
4th Qtr.	558.0	0.1	597.9	0.7	1.1	2.5
2024/1st Qtr.	555.5	-0.5	598.1	0.0	-5.2	2.5
2023/Sep.	—	—	—	—	0.1	2.8
Oct.	—	—	—	—	1.2	2.9
Nov.	—	—	—	—	-0.6	2.5
Dec.	—	—	—	—	1.2	2.3
2024/Jan.	—	—	—	—	-6.7	2.0
Feb.	—	—	—	—	-0.6	2.8
March	—	—	—	—	4.4	2.6
April	—	—	—	—	-0.9	2.2
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.9	24.8	14.8	17.6	8.9	19.6	7.7	21.4
2022	98.2	18.2	118.5	39.6	18.3	23.1	11.8	31.9	9.4	22.0
2023	100.9	2.8	110.2	-7.0	20.3	11.0	11.5	-1.8	10.4	10.9
2023/2nd Qtr.	24.3	1.6	26.1	-8.8	4.8	10.5	2.7	-0.6	2.6	14.3
3rd Qtr.	25.9	1.1	26.9	-16.1	5.3	10.6	2.9	-11.0	2.7	12.7
4th Qtr.	27.6	3.7	29.0	-10.4	5.8	11.3	3.0	-4.8	2.8	6.4
2024/1st Qtr.	25.1	8.8	26.8	-5.0	5.0	13.8	3.1	6.2	2.5	10.0
2023/Sep.	9.2	4.3	9.1	-16.5	1.9	13.0	0.9	-12.2	0.9	12.9
Oct.	9.1	1.6	9.8	-12.4	1.9	8.5	1.0	-4.1	0.9	8.9
Nov.	8.8	-0.2	9.6	-11.8	1.8	5.3	1.0	-3.4	0.9	-0.0
Dec.	9.6	9.7	9.6	-6.8	2.1	20.2	1.0	-6.9	1.0	10.3
2024/Jan.	7.3	11.9	9.1	-9.7	1.4	15.6	1.0	5.9	0.8	13.8
Feb.	8.2	7.8	8.6	0.6	1.7	18.4	1.0	9.3	0.9	14.6
March	9.5	7.3	9.1	-5.1	1.8	8.5	1.1	3.8	0.9	3.0
April	9.0	8.3	9.4	8.3	1.8	8.8	1.1	29.0	0.9	-2.0
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	16.0	106.8
2021	0.3	1.13	2.8	6.4	1.8	21.5	109.8
2022	2.0	1.28	2.6	3.3	-15.5	11.4	131.4
2023	1.2	1.31	2.6	2.5	-6.5	21.4	140.5
2023/2nd Qtr.	2.0	1.32	2.6	2.6	-1.0	5.4	137.4
3rd Qtr.	0.9	1.29	2.6	2.4	-0.3	7.9	144.5
4th Qtr.	0.9	1.28	2.5	2.3	-1.0	5.5	147.9
2024/1st Qtr.	1.3	1.27	2.6	2.5	-1.2	6.5	148.6
2023/Sep.	0.6	1.29	2.6	2.4	0.4	2.8	147.7
Oct.	1.5	1.29	2.5	2.4	-0.5	2.7	149.6
Nov.	0.7	1.27	2.5	2.3	-0.7	2.0	149.9
Dec.	0.8	1.27	2.5	2.3	0.1	0.8	144.1
2024/Jan.	1.5	1.27	2.4	2.5	-1.4	0.5	146.6
Feb.	1.4	1.26	2.6	2.4	-0.3	2.6	149.4
March	1.0	1.28	2.6	2.5	0.5	3.4	149.7
April	2.1	1.26	2.6	2.2	-0.7	2.1	153.6
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.5	21.8	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2022	11.4	21.1	36.4	20.6	28.6	37.8	19.0	5.7	24.8	21.9
2023	11.3	-1.3	34.7	-4.6	27.6	-3.4	17.8	-6.5	24.4	-1.7
2023/2nd Qtr.	2.9	-1.9	8.4	-8.4	6.5	-5.4	4.3	-6.0	5.8	-1.6
3rd Qtr.	2.9	7.0	8.7	-8.1	6.8	-11.7	4.6	-10.2	6.0	-10.3
4th Qtr.	3.0	-7.1	9.2	-3.9	7.2	-7.6	5.0	1.0	6.6	-2.0
2024/1st Qtr.	2.6	1.1	8.8	4.2	6.8	-4.1	4.3	13.3	5.8	-3.6
2023/Sep.	1.0	-6.2	3.1	-3.3	2.3	-11.8	1.6	-6.2	2.2	-4.9
Oct.	1.0	-5.5	3.0	-6.1	2.4	-11.2	1.7	-4.0	2.3	-2.9
Nov.	1.0	-6.6	3.0	-5.1	2.4	-9.6	1.6	-2.2	2.3	-3.2
Dec.	0.9	-9.2	3.1	-0.4	2.4	-1.2	1.8	9.5	2.0	0.4
2024/Jan.	0.8	-10.3	2.6	7.3	2.3	-6.4	1.3	29.2	2.2	-7.6
Feb.	0.9	1.0	2.9	2.2	2.2	-0.5	1.3	2.5	1.8	17.0
March	1.0	12.0	3.3	3.6	2.3	-5.1	1.7	12.6	1.8	-13.8
April	1.0	3.5	3.1	9.8	2.3	9.7	1.6	9.6	2.1	10.8
Sources	"Trade Statistics of Japan", Ministry of Finance									